



Agility and Balance: The Key to Navigating Market Cycles



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How can you determine the appropriate balance in your allocation? Although equity markets continue to set new records, macroeconomic uncertainties remain significant and questions surrounding the AI sector are intensifying. Furthermore, the credit market remains popular with investors, while government bonds are less attractive amid concerns about their financing. Where and how can opportunities be found while avoiding excessive risk exposure? Elsa Fernandez discusses the benefits of a diversified allocation fund such as R-co Valor Balanced.

Who is R-Co Valor Balanced designed for?

Elsa Fernandez: R-co Valor Balanced combines two of our firm's long-standing areas of expertise: Valor, for its international equity component, and our euro credit expertise for its bond component. It thus offers a balance between performance and risk control and is aimed at investors who wish to delegate the arbitrage between different asset classes to experts who monitor the markets on a daily basis. This dual exposure, and the flexibility inherent in these two pockets, have enabled the fund to navigate a variety of market environments, some of them extreme, since its launch in 2018. By replicating the equity exposure of R-co Valor while adding a bond component, mainly investment grade¹ bonds denominated in euros, this fund benefits from two distinct performance drivers. Its

investment freedom, with no style bias or benchmark constraints, allows it to capture performance wherever it is found, both sectorally and geographically. Since it was launched, the fund has delivered an annualised return of 6.0% with volatility of 9.1%².

How has the shift in central bank policy supported market gains?

E.F.: As inflation normalises, central banks have begun a cycle of rate cuts, but at different paces. In Europe, the ECB paused after cutting its key rate from 4% to 2% between June 2024 and June 2025³. The Fed is battling a more complex environment: inflation remains above 3% and there are signs of weakness in the labour market⁴. However, after nine months of waiting, the US central bank finally cut rates by 25 basis points in September and again in October, bringing its key rate to between 3.75% and 4%⁵.

This monetary pivot resulted in a slight steepening of the yield curve but, above all, fuelled the recent rally in the equity markets. Lower rates reduce the cost of credit, support investment and consumption, and enhance the attractiveness of equities. The Fed also eased liquidity constraints by slowing quantitative tightening. At its meeting on 29 October, it announced the end of balance sheet reductions as of 1 December 2025, bringing an end to the quantitative tightening launched in 2022. These measures have bolstered investor confidence and supported valuations, making monetary policy a key driver of market sentiment. However, movements in sovereign bonds have remained moderate.

Beyond monetary policy considerations, on the geopolitical front, the easing of trade tensions between Washington and Beijing has boosted investor confidence. Furthermore, corporate fundamentals remain solid, with earnings reports over recent quarters significantly exceeding expectations on both sides of the Atlantic, underscoring the resilience of companies despite a challenging macroeconomic environment. However, valuations in the United States are undeniably high. The S&P 500 is trading at multiples above its historical average, leaving little room for error. The increases are concentrated in a small number of technology stocks, a situation that accentuates vulnerabilities if investor sentiment towards the sector were to deteriorate.

In your opinion, what factors could hinder this momentum?

E.F.: Global growth is expected to gradually slow according to the IMF, falling from 3.3% in 2024 to 3.2% in 2025, then to 3.1% in 2026⁶. It is expected to stabilise at around 1.5% in advanced economies, while remaining slightly above 4% in emerging and developing countries. Inflation continues to decline but remains above the Fed's targets, fuelling debate about the trajectory of interest rates. Added to this is the burden of public debt in both the United States and Europe, which poses significant risks to long-term global economic stability.

Furthermore, concerns are beginning to emerge about the development of a potential bubble around AI. These concerns relate to valuations in a sector that has been responsible for much of this year's rebound. The main risk is that user and revenue growth – in other words, monetisation – could disappoint. In addition, the multiple interconnections between players in the sector create a risk of interdependence. Panic affecting one company could easily spread to others. However, the situation is not comparable to that of the dot-com bubble. The difference lies in particular in the fact that the current momentum is driven more by tech giants with solid financial foundations than by a few start-ups.

Finally, each geographical area faces its own challenges that could hinder overall progress. In China, the post-Covid recovery remains sluggish amid mistrust of government policy and uncertainty surrounding a possible reversal of Donald Trump's tariff policy. In Europe, questions remain about the region's ability to regain momentum, particularly in light of Germany's fiscal plan, and about the sustainability of this potential recovery. Finally, in the United States, behind the euphoric markets, the economy is slowing, the job market is stagnating and consumption among lower-income households is weakening.

How does this environment shape your allocation strategy?

E.F : Our allocation is currently cautious, both for equities (40.4%) and bonds (45.7%)⁷, with the remainder consisting of money market products and cash. The real challenge today is to ignore the noise, resist the temptation to follow the consensus and keep a cool head.

In this regard, within the equity allocation, while most international investors have turned away from China in recent years, we have chosen to maintain our position. This strategy has paid off: these positions were the main driver of performance in the equity portion in 2024 and remain among the main contributors this year. Nevertheless, the United States remains our primary geographical exposure. Corporate resilience, a favourable environment, vigorous fiscal stimulus measures and, for the time being, accommodative central bank policy continue to support growth. In Europe, although inflation appears to be under control, political instability and weak productivity are weighing on the region. However, on a microeconomic level, corporate earnings remain solid and labour markets are performing well. We favour companies with strong international exposure. We have also increased our exposure to certain regions, such as South America, in order to take advantage of strong local consumption.

In managing the bond portfolio, given the divergence in monetary policies, rising fiscal and political risks, and weak signals in the credit market, we believe that adopting a selective and flexible approach is essential. Our primary objective is to preserve the portfolio's carry and credit quality, while keeping a close eye on rapid changes in the macroeconomic and financial environment. In this context, we believe that our ability to

quickly adjust our exposure and favour the most resilient segments of the market will be essential to capturing returns. In recent months, we have been particularly active in the primary market, favouring the investment grade corporate segment with relatively long maturities, which allow us to partially mitigate economic uncertainties. Financials remain the main sector exposure in the portfolio.

(1) Debt securities issued by companies or governments rated between AAA and BBB- on Standard & Poor's scale.

(2) Source: Rothschild & Co Asset Management, 31/10/2025. Class C EUR. Creation date: 24 October 2018. Past performance is not a reliable indicator of future performance and is not constant over time. The characteristics/objectives/strategies mentioned above are indicative and may be changed without notice.

(3) Source: ECB, October 2025.

(4) Source: U.S. Bureau of Economic Analysis, October 2025.

(5) Source: Fed, October 2025.

(6) World Economic Outlook, IMF, October 2025.

(7) Source: Rothschild & Co Asset Management, 31/10/2025.

Learn more about the fund(s)

R-co Valor Balanced



Check this document on our website



R-co Valor Balanced

Recommended Investment Horizon: 3-5 years

SRI Risk: 3/7

The synthetic risk indicator allows for an assessment of this product's risk level compared to others. It indicates the likelihood of this product incurring losses due to market movements or our inability to pay you. We have classified this product in risk class 3 out of 7, which represents a low to medium risk level. This classification primarily reflects a discretionary management policy that exposes the portfolio to equity and bond markets with a balanced profile. In other words, the potential losses linked to the product's future performance are at a low to medium level, and in the event of adverse market conditions, it is unlikely that our ability to pay you would be affected. This risk indicator assumes you hold the product for 5 years; otherwise, the actual risk may vary significantly, and you could receive less in return. Main Risks: Capital Loss Risk - Discretionary Management Risk - Market Risk - Credit Risk - Interest Rate Risk - Currency Risk - Counterparty Risk - Risk Related to the Use of Derivative Instruments. This is a non-exhaustive list. Please refer to the "Risk Profile" section of the SICAV's prospectus for more details. Geographic and sectoral allocations and distributions are not fixed and may change over time within the limits of the compartment's prospectus. The above information does not constitute investment advice or a recommendation to invest.

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(1) Source: Rothschild & Co Asset Management, 31/07/2026.

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